



# Auditor's Annual Report 2020/21

**Countess of Chester Hospital NHS  
Foundation Trust**

24 June 2021

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## Contents

## Page

Summary

3

Accounts audit

4

Value for money commentary

5

This report is addressed to Countess of Chester Hospital NHS Foundation Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

# Summary

## Introduction

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2020-21 audit of Countess of Chester Hospital NHS Foundation Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

## Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust’s accounts on 24 June 2021. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
<b>Annual report</b>	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
<b>Value for money</b>	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
<b>Other reporting</b>	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

# Accounts audit

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. There is a risk the assumptions used to determine the valuation are not accurate.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We raised a recommendation relating to management review of valuer assumptions.</p> <p>We considered the estimate to be balanced based on the procedures performed due to overall limited movement in the value of the estate from the prior year.</p>
<p><b>Fraudulent expenditure recognition</b></p> <p>The Trust was set a forecast deficit target for the year, however at the year end, the Trust's performance showed an improvement on the agreed deficit position. We considered there to be a risk over existence and accuracy of non-pay expenditure at the year-end, as there is greater incentive for management to overstate expenditure in 2020-21 by bringing forward expenditure from 2021-22, to mitigate financial pressures in that period.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Management override of controls</b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

# Value for money

## Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](http://nao.org.uk)

## Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

<b>Care Quality Commission rating</b>	Requires Improvement (May 2019).
<b>NHS Oversight Framework rating</b>	2 - Providers Offered Targeted Support
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	Moderate Assurance (unqualified opinion).

## Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

## Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
<b>Financial sustainability</b>	One significant risk identified	No significant weaknesses identified
<b>Governance</b>	No significant risks identified	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant weaknesses identified

# Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>Financial plans are formulated in conjunction with NHS planning guidance and are reviewed by the Senior Management Team and the Board of Directors. Budget holders sign off their Annual budgets each year, before approval by the Board of Directors. In 2020/21 this process was suspended due to the pandemic and has since been delayed for the 2021/22 financial year. Block contracts, set up in the temporary financial regime established for the first half of 2020/21, were retained during the second six months, and will now continue into the first six months of 2021/22.</p> <p>Through our review of relevant Board and sub-Committee meeting minutes, we saw evidence of the budget setting and monitoring processes in place prior to the COVID-19 pandemic for the 2020-21 Operational Plan. Risks and mitigations were included in the Trust plan and financial risks are triangulated with workforce and operational risks. In 2020-21, we have seen evidence of continued budgetary monitoring throughout the year between finance and budget holders, and monthly review of the finance risk register.</p> <p>Following changes to the funding regime for months 7-12, we note the Trust was set a target of a £5.2m deficit for the remainder of the year to 31 March 2021, as part of the wider system funding envelope agreed by NHS England/Improvement (NHSE/I). The Trust reported a £1.1m deficit at M12, £4.1m better than plan. The Trust underspent against its original plans for COVID-19, Restoration and Winter.</p> <p>Following the onset of the COVID-19 pandemic, NHSE/I requested all NHS entities halt the development and formal reporting of cost improvement plans (CIPs) as part of the wider financial planning suspension for 2020/21. We have seen evidence at other trusts that CIPs continued to be monitored throughout the year, albeit at a reduced value and largely ignoring clinical operational areas as they coped with COVID-19 pressures. Whilst the Trust has demonstrated its ability to manage its resources within the confines of the funding regime, the Trust in year monitoring of CIPs was limited. The Trust did however provide evidence of weekly procurement reports which are generated to highlight savings made across contracts and supply chain.</p> <p>For the 2021/22 financial year, NHSE/I has continued the arrangements from the second half of 2020/21 in recognition of the continued pressure felt by NHS organisations from the COVID-19 pandemic. The Trust is in the process of developing a financial plan alongside partners in the wider Cheshire &amp; Merseyside Integrated Care System (ICS) which achieves financial balance at the system level.</p> <p>In the period to 31 March 2021, the Trust has kept the Board and its sub-committees informed of the funding arrangements in place and the wider pressures faced by both the Trust itself and the wider ICS. We have reviewed examples of presentations to Board and Finance and Performance Committee as well as the monthly finance report highlighting the financial position. In addition, we have seen evidence of the initial budget setting process that has been undertaken by the Trust to identify cost pressures and what further investments are needed for 2021-22. The formal planning guidance for 2021-22 was not released until 29<sup>th</sup> March 2021. (cont. overleaf)</p>

# Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>▪ How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>▪ How financial performance is monitored and actions identified where it is behind plan; and</li> <li>▪ How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>From a system-wide perspective, ahead of the first formal submission on 6th May, there was a shortfall of £84m across the Cheshire and Mersey ICS for the first six months of 2021/22. In the final draft submission at the end of May, the Trust has been set a requirement to break-even against an expected deficit which will require delivery of an ambitious efficiency target of £4.8m or 3.2%. Plans are underway to identify these proposed savings, but this process falls outside 2020-21.</p> <p><b>Conclusion</b></p> <p>Whilst in a normal year the Trust has previously had adequate cost improvement and associated governance processes in place, there are understandable reasons why this is not the case this year. When considering this in the context of operating the organisation in a pandemic, we consider it reasonable that no significant cost improvement planning or execution was carried out. This is supported by guidance from the regulator, local consideration of corporate service savings through effective procurement and the emergency funding arrangements in place which ensured that the absence of formal CIP monitoring did not create a risk of significant financial loss. We have raised recommendations to management to improve financial governance around CIP and financial risk monitoring but do not believe this constitutes a significant weakness in the period of audit.</p>

# Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>The Trust has a robust risk management framework and processes in place. The key element of the risk management process at the highest level of the Trust is embodied in the Board Assurance Framework (BAF). Through correspondence with different departments, a comprehensive analysis of all of the risks faced by the Trust is carried out. The BAF has recently been reviewed and updated and was ratified in the last 12 months.</p> <p>Each department also has an individual risk register which forms part of the action log in meeting agendas (risks when mitigated are closed as actions, when in progress of being mitigated updates are given, and when proposed to be mitigated are added to the register).</p> <p>Strategic risks are recorded in the departmental risk registers and consolidated into the BAF for reporting in to the Trust Board. The Trust previously commissioned an external governance review supported by a consultancy firm and following publication of the findings, a Governance Implementation Plan was devised. Understandably, roll out of the Plan was paused due to COVID-19 restrictions and an update on progress was provided to the Finance and Performance Committee in November 2020. Roll-out of Phase 2 of the implementation plan will be re-established in early 2021-22.</p> <p>The Financial risk register was updated in December 2020 and incorporated new risks identified by the local counter-fraud specialist. The BAF incorporates system level financial risk. We have seen evidence of review of the BAF at both Board and its sub-committees, Finance and Performance Committee (FPC) and Quality and Safety Committee (QSC).</p> <p>CQC standards are overseen by QSC where updates are provided on progress with recommendations and action plans. The Trust is currently rated as 'Requires Improvement' by the CQC, following an inspection in December 2018 that reported on 17th May 2019. In 2019/20, specific governance arrangements were implemented to ensure both committee and Board oversight on progress against CQC 'Must Do' actions in particular. We understand one of these actions remain relating to the safe management of medicines. We are satisfied there is appropriate oversight through QSC and exception reporting through to Board.</p> <p>Compliance with regulations and standards is reported in the Annual Report and Annual Governance Statement (presented to Board and Audit committee). The Trust also performs self-assessment annually against the NHS Provider Licence, which is considered by Audit Committee and Board. The Audit Committee is responsible for monitoring the effectiveness of internal control. The Trust's internal auditors (MIAA) develop and agree an annual work plan which is approved and monitored at the Audit Committee. Through our review of the Audit Committee papers, we have seen evidence of audit reports identifying recommendations for improvements for any weaknesses in internal control.</p> <p><b>Conclusion</b></p> <p>We are satisfied there are appropriate governance processes in place at the Trust.</p>

**Improving economy, efficiency and effectiveness**

**Description**

**Commentary on arrangements**

This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The use of benchmarking information to identify areas where services could be delivered more effectively;
- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

- There was some evidence of benchmarking information being used to inform decision making. The Trust participates in the NHS benchmarking national cost collection exercise each year and updates on this were reported to FPC in November 2020 and March 2021. Similarly, we saw evidence of informal benchmarking of financial performance between members of the Cheshire and Merseyside Health & Care Partnership (HCP).
- The Trust has robust arrangements in place to monitor non-financial performance, for example national quality indicators, with monthly performance reporting to Board. Non-financial performance is monitored by both FPC and QSC through the integrated performance reports (IPR). In each report, key metrics are presented using statistical process control charts split by the CQC domains (Safe, Effective, Responsive & Well Led). Performance is reported in comparison to nationally determined targets/ locally agreed targets.
- Assurance of the accuracy of non-financial performance data is controlled by the Business Intelligence team who produce the data which is incorporated into the IPR. The team performs data quality checks as part of its standard process.
- At an Integrated Care Partnership (ICP) level, the Chief Executive Officer is a member of the Cheshire West ICP Board, and the Chair of the ICP is a non-executive director at Countess of Chester. In addition, the CEO is a member of the HCP Board and the Director of Finance attends monthly HCP meetings. The Countess Board of Directors are kept well informed of the wider system development and programmes underway through updates from the relevant executive directors at Board meetings.
- We have seen evidence of the ICP development plan to evidence of the aims of the partnership and briefings provided to Board of Directors. The HCP has number of transformation programmes intended to deliver savings across ICS, for example regional pathology collaboration (AOC) or collaborative working with regard to Personal Protective Equipment (PPE). In addition, we have provided further commentary on the system wide plans being developed to determine the Operational Planning for 2021-22 financial year on page 6 of this report.

**Conclusion**

We recognise the extent of benchmarking has been reduced this year as a result of the COVID-19 pandemic, and in a normal year we would expect to see more evidence of this taking place to identify where areas could be delivered more effectively. However, we have seen evidence of wider partnership working with both the ICP and HCP and we are satisfied there are appropriate arrangements in place for improving economy, efficiency and effectiveness at the Trust.



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